APPLE'S TENTH ANNIVERSARY

APPLE COMPUTER, INC.
THE FIRST DECADE

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A Brief History of Apple Computer, Inc.
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INTRODUCTION

No company is more closely identified with the birth and growth of the personal computer industry than Apple Computer, Inc. In 1977, Apple was one of several fledging enterprises that had created computers small and inexpensive enough to be owned by individuals. With a product that could be mass-produced and mass-marketed, however, Apple quickly captured the spotlight. In just 10 years, Apple has grown into a $2 billion, Fortune 500 company. Even more unique is the role that Apple has played in shaping a $45.5 billion industry that also is only 10 years old.

Indeed, the entire history of computing comprises less than 40 years. Two scientists completed the first all-electronic computer, ENIAC, in 1945. Just a few years later scientists invented the transistor, microscopic slivers of silicon that could be packed densely together to form more complex devices. By 1969, a team of engineers at Intel Corp. compressed a complete programmable computing device--functionally equivalent to about 4,000 transistors--on a single silicon chip. They called it a microprocessor. It was this combination of programmability and miniaturization that led to the creation of microcomputers during the next decade.

APPLE'S BEGINNINGS

With the microprocessor, the semiconductor industry had provided the compact, inexpensive electronic brain needed to build a personal-sized computer. But it was individual computer enthusiasts, not the established mainframe and minicomputer companies, that took the next steps. Fascinated with the computers they designed and programmed by day, many young engineers longed to have their own on which to work and play at night. They avidly read a handful of hobbyists magazines, formed clubs and swapped ideas. With zeal reminiscent of the 1960's, they wanted to bring computing power to the people.

Stephen G. Wozniak was a regular attendee of the Homebrew Computer Club that began meeting in 1975 in Menlo Park, Calif., at the northern edge of what was already called "Silicon Valley." Wozniak had become enthralled with computers in high school and had dropped out of the engineering program at the University of California, Berkeley, to work for Hewlett Packard, a manufacturer of calculators and minicomputers. It was at a Homebrew meeting that Wozniak heard about the first personal computers, the Altair, the IMSAI 8080 and others, which were being offered as mail-order kits.

By mid-1976, Wozniak, 26, had written a BASIC programming language for a new microprocessor from MOS Technology, the 6502, and designed a computer to run it. Wozniak proudly passed out photocopies of his design to Homebrew friends and helped them build their own machines from the plans.

Steven P. Jobs, aged 21 in 1976, shared Wozniak's passion for computers. The two had collaborated on several electronics projects, including creating the video game *Breakout* for Atari, Inc. where Jobs worked. Convinced of the marketability of Wozniak's design, Jobs persuaded his friend to sell the Apple I kits to other hobbyists.

They sold Jobs' Volkswagen van and Wozniak's programmable calculator to raise enough money to get started. Jobs then landed an order for 50 Apple I's from one of the first computer retail stores in the country, which they used to secure credit at an electronic parts house. In the garage of Jobs' parents' home in Cupertino, Calif., Apple Computer went into business.

"I had wanted a computer my whole life; that was the big thing in my life," Wozniak remembers. "All of a sudden I realized that microprocessors were cheap enough to let me build one myself. Steve [Jobs] went a little further. Steve saw it as a product that you could actually deliver, sell and someone else could use."

Like all early personal computers, the Apple I was designed for experts who could put it together and write their own programs. But Jobs had a vision for Apple Computer that went far beyond the hobbyist market. He sought advice on realizing his goals from successful industry figures such as Nolan Bushnell, founder of Atari; Don Valentine, a venture capitalist; Regis McKenna, who owned a rising Silicon Valley advertising and public relations agency; and A.C. "Mike" Markkula, who at age 33 had retired from a lucrative marketing career at Intel.

Wozniak began designing a second computer that would be technically far superior to the Apple I, incorporating a keyboard, power supply, the ability to generate color graphics and a BASIC programming language in an attractive plastic case. Convinced that this product--the Apple II--would spark demand for personal computers beyond the hobbyist market, Mike Markkula wrote a business plan for the young company, then invested in it. He officially joined Apple when it incorporated in January,1977, and has since served in various executive positions, including president.

During that first year, Apple blossomed. The firm moved out of its garage into leased quarters in Cupertino. It introduced the Apple II to rave reviews at the first West Coast Computer Faire. Markkula signed up dealers across the country to sell the Apple II. Regis McKenna's agency helped establish an immediate presence for Apple with an eye-catching, multi-colored logo, ads placed in national consumer publications and a public relations campaign that leveraged Apple's "American Dream" beginnings. An infusion of $3 million in venture capital gave Apple an enormous advantage over many of its struggling competitors. Apple finished its first fiscal year with $774,000 in sales and a $42,000 profit.

AN INDUSTRY GROWS UP

During the next four years, the personal computer industry exploded into the consciousness of every day life--in the U.S. and abroad. Large, well established manufacturers of mainframe computers, office systems and telecommunications products such as IBM, Digital Equipment, Zenith and AT&T recognized the opportunity for personal computers and entered the market with zeal. By the end of 1982 more than100 companies were manufacturing "pc's," including Atari, Commodore, Tandy and a host of start-ups seeking to emulate the success of the big firms.

The boom was kindled by an avalanche of software programs that turned computers into special purpose tools: for typing and rearranging text, analyzing financial data, sorting and filing information and thousands of other uses never imagined by the computers' creators.

Apple contributed key products that catalyzed the development of software for the Apple II, including the Disk II floppy disk drive and disk operating system, and a host of

programming languages and aids. As a result, landmark programs, including Visicalc, Personal Filing System and other business-oriented applications, were developed first for the Apple II. The benefit of these software packages cannot be underestimated: of the 130,000 Apple IIs sold by September,1980, an estimated 25,000 were purchased entirely for the ability to run Visicalc.

Apple also secured early dominance in the closely linked education and consumer markets by continually improving its Apple II line with the II Plus in 1979, the IIe in 1983 and the IIc in 1984. Beginning in 1979, Apple awarded hundreds of thousands of dollars in grants to schools and individuals for the development of educational software. The large software library that ensued is a key reason that more than 60 percent of computers used in U.S. primary and secondary schools are Apples.

In 1983, Apple launched a program called "Kids Can't Wait," that donated complete personal computer systems and training to nearly 10,000 public and private schools throughout California. The company worked with legislators at the national and state levels to enact tax provisions that would provide incentives to corporations to make this type of donation.

A huge infrastructure of retail dealers sprang up to deliver personal computer products to buyers. Early on, Apple prohibited mail-order sales of its brand-name products, believing that a local dealer who was trained in service and support was essential to customer satisfaction. It implemented programs that furthered this position, including the industry's first Dealer Advisory Council, extensive training for retail sales and service people and instruction manuals considered by many as the best in the personal computer industry. By the end of 1982, Apple had more than 3,000 authorized retail dealers worldwide.

Even with enormous competition, Apple revenues continued to grow at unprecedented rates, reaching $583.1 million for fiscal 1982, the company's fifth year of operation. Apple's initial public stock offering in December, 1980, was one of the largest in Wall Street's history , raising approximately $100 million. In 1983, Apple entered the Fortune 500 and gained additional Wall Street notoriety by recruiting Pepsi-Cola Company President John Sculley as its new chief executive.

However, Apple was not immune to difficulties. Driven by the prospect of IBM and other deep-pocketed firms entering the industry, Apple raced to produce a third

computer designed especially for business users. It began shipping the Apple III in late 1980 before the system could be fully tested and without some promised features. All deficiencies were later corrected, but the Apple III never recovered from its stumbling start and eventually was discontinued.

IBM's Personal Computer, introduced in August, 1981, created frenzy in the industry as software and accessory developers rushed to create products compatible with it and its "clones." Development for the Apple II and III, though still at a substantial level, dwindled in comparison. Awareness of personal computers reached an all-time high (symbolized by Time magazine naming the computer as its 1982 "Man of the Year"), but scores of companies were vying for market share. Into this environment, Apple in early 1983 launched its fourth computer, the Lisa.

TECHNOLOGY FOR INDIVIDUALS

Lisa established a radical new direction for Apple and the entire personal computer industry. Apple was convinced that complex and cryptic software was confining the use of personal computers to people who were willing to become experts--even as the earliest microcomputer kits had been useful only to hobbyists. Impressed with concepts being explored at Xerox Corp.'s Palo Alto Research Center (PARC), Apple invested $100 million over two years to develop software based on a similiar graphical user interface. Lisa software mimicked human understanding and methods of working instead of the unfamiliar language and logic of computers.

Although Apple revenues hit nearly $1 billion in 1983, Lisa was not a commercial success for Apple. Nevertheless it was a milestone product that re-established Apple as a technological pioneer and focused attention on the need for computers to be easier to use.

Lisa technology was the foundation for the Macintosh, a much less expensive, faster computer introduced by Apple a year later. Elements of the Macintosh user interface--icons, windows, pull-down menus and the mouse pointing device--set new standards for ease of use for the personal computer industry. Macintosh and Apple's LaserWriter printer became the catalyst for an intriguing new application for personal computers--desktop publishing--which immediately captured the attention of businesses both large and small.

An inevitable shakeout in the personal computer industry began in 1983, first affecting the companies selling low-priced machines to consumers. Companies that made strategic blunders or that lacked sufficient distribution or brand-awareness for their products disappeared. Many independent computer dealers, faced with eroding margins, either consolidated into large chains or quit business. By 1985, only the largest computer and software companies seemed positioned to survive.

Apple also experienced its most difficult year in 1985. Macintosh and Apple II sales were below expectations as demand remained depressed in the consumer, business and education markets. The company suffered the departure of its founders and instituted a massive reorganization to streamline operations and expenses. Costs associated with closing three factories and eliminating 1,200 jobs resulted in Apple's first-ever quarterly loss.

As Apple completed its tenth year, however, it was apparent that the company had engineered a remarkable turnaround. Macintosh sales to business gained momentum throughout 1986, spurred by introduction of the faster and more powerful Macintosh Plus, dozens of software and accessory products from Apple and third-party developers, and the new desktop publishing application. Apple also continued to advance the technology of its original product line with a new computer, the Apple IIGS, and enhancements for older products.

The wave of new technology carried into 1987 with the introduction of the Macintosh SE and Macintosh II, as well as a number of software packages and peripherals. For the first time in the company's history a cash dividend was awarded in the third quarter of fiscal1987 and a two-for-one stock split was announced. Under the leadership of John Sculley, Apple finished fiscal 1987 with record income of $217 million on $2.66 billion in revenues.

"Apple was founded on a simple but powerful philosophy: when you put extraordinary, creatively built tools for the the mind in the hands of individuals, extraordinary things will happen," Sculley says in sum. "That philosophy has been validated year after year, by millions of people from all walks of life, all over the world. In the years to come, Apple will continue to focus on making people more productive--not just by processing data faster--by helping them create and communicate in new and more intelligent ways."